

**AUDIT REPORT
OF THE
NEBRASKA CORN DEVELOPMENT,
UTILIZATION, AND MARKETING BOARD
JULY 1, 2001 THROUGH JUNE 30, 2002**

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NEBRASKA CORN DEVELOPMENT,
UTILIZATION, AND MARKETING BOARD

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NEBRASKA CORN DEVELOPMENT, UTILIZATION, AND MARKETING BOARD

BACKGROUND

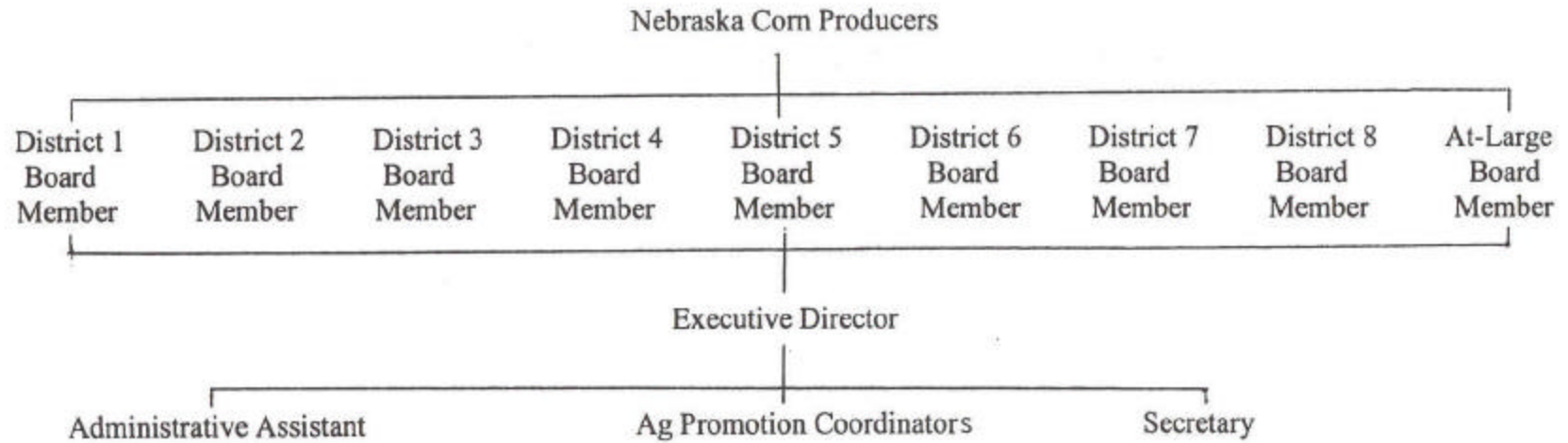
The Corn Development Program was created in 1978 to promote the production, marketing, and utilization of corn. A nine-member board, who each must be engaged in corn production, was created to administer, supervise, and operate the program. The Board became a separate State agency in fiscal year 1985-1986. Prior to that time, it was part of the Department of Agriculture. The primary intent and purpose of the Corn Development, Utilization, and Marketing Board is to develop, carry out and participate in programs of research, education, market development, and promotion on behalf of the corn producers of Nebraska. Research projects that consider new and industrial uses of corn are pursued. Education and promotion programs are developed for the benefit of both producers and consumers. Market development programs are both international and domestic in nature and are geared towards bulk corn sales and value-added products made from corn.

MISSION STATEMENT

The mission of the Nebraska Corn Development, Utilization, and Marketing Board is to enhance the profitability of the corn producer by developing, carrying out and participating in programs of market development, promotion, research, and education.

NEBRASKA CORN DEVELOPMENT,
UTILIZATION, AND MARKETING BOARD

ORGANIZATIONAL CHART



NEBRASKA CORN DEVELOPMENT,
UTILIZATION, AND MARKETING BOARD

SUMMARY OF COMMENTS

During our audit of the Nebraska Corn Development, Utilization, and Marketing Board, we noted certain matters involving the internal control over financial reporting and other operational matters which are presented here. Comments and recommendations are intended to improve the internal control over financial reporting, ensure compliance, or result in operational efficiencies.

1. ***Contract Monitoring and Documentation:*** The Board's process for monitoring contracts should be improved to ensure payments do not exceed the total contract amount. The Board made \$1,942,900 in contractual payments in fiscal year 2002. One of seven contracts tested exceeded the total contract amount by \$18,010. There was no addendum to the original contract for the additional expenses approved by the Board.
2. ***Travel Expenses:*** There was not adequate documentation to support mileage claimed for State-owned vehicles or to support the dates of travel claimed for a trip to North Carolina. Two expense reimbursement documents were not submitted each month as required.

More detailed information on the above items is provided hereafter. It should be noted this report is critical in nature since it contains only our comments and recommendations on the areas noted for improvement.

Draft copies of this report were furnished to the Board to provide them an opportunity to review the report and to respond to the comments and recommendations included in this report. All formal responses received have been incorporated into this report. Responses have been objectively evaluated and recognized, as appropriate, in the report. Responses that indicate corrective action has been taken were not verified at this time but will be verified in the next audit.

We appreciate the cooperation and courtesy extended to our auditors during the course of the audit.

NEBRASKA CORN DEVELOPMENT,
UTILIZATION, AND MARKETING BOARD

COMMENTS AND RECOMMENDATIONS

1. Contract Monitoring and Documentation

Good internal control requires adequate monitoring of all contracts to ensure payments are in compliance with the terms of the contract and do not exceed the total contract amount. Good internal control also requires adequate documentation to substantiate any changes made to a contract.

The Board's process for monitoring contracts should be improved to ensure payments do not exceed the total contract amount. The Board monitored contracts through monthly budget reports based on specific projects. The staff monitored individual expenses and completed a year-end review of all expenses. Additional expenses outside of budgeted estimates were reviewed and approved by the Board.

The Board made \$1,942,900 in contractual payments in fiscal year 2002. One of seven contracts tested had payments that exceeded the contract amount by \$18,010. Total payments during the fiscal year to the contractor were \$134,110. The contract stated total payments were not to exceed \$116,100. There was no addendum to the original contract for the additional expenses approved by the Board.

Without adequate documentation and monitoring of contracts, there is an increased risk for noncompliance with contractual terms and misuse of State funds.

We recommend the Board implement additional procedures for monitoring of all contracts to ensure payments are in compliance with the terms of the contract and do not exceed the total contract amount. We also recommend the Board obtain proper documentation to support contract changes.

Board's Response: The Nebraska Corn Board will continue the practice of having the Attorney General Office review all contracts for form and content and make appropriate adaptations to contracts following their review. The Board will also continue the process of monitoring contracts through monthly budget reports and expense documents and reports, along with a year-end review of all expenses.

The contract that was tested and found to be out of compliance with the total contract amount had approval by the board for exceeding the amount on the original contract, but failed to have an addendum attached. Corn Board staff have implemented an additional procedure, which includes a new form to be included in the contract workbook, that should insure compliance with the terms of all contracts. The board will continue to use the documentation of board minutes to support contract changes, along with the new format found in the contract workbook. The Auditors Office approved this new format during the exit audit report.

NEBRASKA CORN DEVELOPMENT,
UTILIZATION, AND MARKETING BOARD

COMMENTS AND RECOMMENDATIONS

2. Travel Expenses

We tested nine travel expense related documents totaling \$14,357. The Board had \$100,253 in total travel expenses in the fiscal year. We noted the following concerns relating to travel expenses:

State-Owned Vehicle Mileage

Neb. Rev. Stat. Section 81-1025(1) R.R.S 1999 states, “Each operator of a state-owned motor vehicle . . . shall report the points between which the motor vehicle traveled each time used, the odometer readings at such points, the time of arrival and departure, the necessity and purpose for such travel, the license number of such motor vehicle, and the department to which such motor vehicle belongs.”

The Board maintained two permanently assigned TSB vehicles. Both vehicles were used to promote the use of Ethanol by educating the general public about the advantages of ethanol. One of the vehicles was used by the Future Farmers of America (FFA) under contract with the Board. We tested vehicle logs for one month relating to the two vehicles and noted the following:

- 1) Each trip was not separately listed on the vehicle log tested under contract with FFA, as required by statute. Additionally, the log did not list the start and stop times for each trip. The vehicle used by the FFA did not have adequate documentation to support mileage claimed for three of seven trips listed. The three trips included:
 - 176 miles reported for Lincoln to Grand Island; actual map miles were 95.
 - 70 miles reported for Grand Island to York; actual map miles were 44.
 - 101 miles reported for a round trip between Lincoln and Mead; actual map miles were 78.
- 2) The other vehicle log did not have adequate documentation to support the mileage claimed for one of ten trips tested. The trip was for collecting corn samples throughout northeast Nebraska. Without listing the nearest towns, the Board would be unable to determine if the mileage claimed was reasonable.

If proper documentation on vehicle logs is not provided, the mileage driven cannot be verified. The risk for misuse of State vehicles also increases.

We recommend the Board implement procedures to ensure all travel logs are filled out completely and accurately and to ensure miles driven in State-owned vehicles are reasonable.

NEBRASKA CORN DEVELOPMENT,
UTILIZATION, AND MARKETING BOARD

COMMENTS AND RECOMMENDATIONS

2. Travel Expenses (Continued)

Timely and Adequate Documentation for Expense Reimbursements

Neb. Rev. Stat. Section 81-1174 R.R.S. 1999 requires expense reimbursement documents to be submitted each month. Good internal control requires that adequate supporting documentation be on file to support all dates, times, amounts, and locations of travel.

- Two of four expense reimbursement documents were not submitted each month as required by statute. The first document included expense reimbursements for trips beginning August 20, 2001 through October 29, 2001. The request for reimbursement was not submitted until November 2001. The second document included expense reimbursements for trips beginning February 19, 2002 through March 22, 2002. The request for reimbursement was not submitted until May 2002.
- One of nine travel expense reimbursement documents tested did not have adequate documentation to support the dates of travel claimed. One employee was reimbursed for a trip to Charlotte, North Carolina for October 24, 2001 through October 28, 2001. The dates of the conference per the agenda were October 24, 2001 through October 26, 2001. The employee was reimbursed \$175 for the days not included in the conference. There was no documentation to substantiate the savings of the cost of airfare versus the expenses of the extended stay.

Without timely submission of expense reimbursement requests, the Board is not in compliance with State statute. There is an increased risk for incorrect and unreasonable reimbursements and for misuse of State funds without adequate supporting documentation.

We recommend the Board comply with State statute and implement procedures to ensure travel expenses are submitted on a monthly basis. We also recommend the Board maintain adequate documentation to support all travel expense reimbursements.

Board's Response: Regarding the FFA Officers use of the E-85 ethanol promotional vehicle, the Nebraska Corn Board on April 10, issued an advisory letter to the FFA that more detail will be required of them in documenting the use of this vehicle. Better log documentation and detail of stopping points with start and stop times will be observed. The Nebraska Corn Board will spot check each of the monthly log sheets before they are sent to the Transportation Service Bureau. For both the van used by the FFA Officer team and the vehicle used by the Nebraska Corn Board, many locations traveled are in rural locations and in corn fields across the state, which sometimes makes it more difficult to document specific sites that can later be cross checked for audit compliance. More detail will be provided in the future.

NEBRASKA CORN DEVELOPMENT,
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COMMENTS AND RECOMMENDATIONS

2. Travel Expenses (Concluded)

Board's Response, Concluded:

The Board does encourage all expenses to be submitted within each month. Even though it places the board out of compliance with state requirements, it seems practical and fiscally responsible for small expenses to be combined with other expenses to avoid the state having to spend more money to issue multiple checks for small amounts of reimbursements. The state currently has a \$720 million shortfall and each reimbursement check requires a sizable amount of time and expense. We completely agree on the timely reimbursements of documents within reason and practicality. The Board works towards 100% compliance on warrant payments within each month, however, more than 30 days may exist on smaller reimbursement payments to minimize state expenses.

The Board in the future will maintain a copy of airline rates to better document and substantiate the savings of the cost of airfare versus the expenses of any extended stays. Typically it is more cost effective to remain through a Saturday night and pay an additional night's lodging, in order to obtain cheaper airline rates, but this requires a determination of value of time versus additional expense or savings.

Board's Overall Response:

I want to thank the Auditors Office for providing the Nebraska Corn Board a complete and fair review of our Board's compliance with State Statutes and our financial accountability of the Nebraska Corn Checkoff Program. Audits such as this should provide a sense of compliance to the rules and regulations that govern a non-code agency like the Nebraska Corn Board. In a perfect world we totally agree with all of the directives and suggestions that were offered in this audit, but with staff reductions, more work load for fewer employees and tighter budgets it is difficult to employ all of the oversight that would eliminate any risk of non-compliance. The state is experiencing the largest budget shortfall in recent history and that puts more strain on agency workloads and their ability to have 100% fail-safe systems.

The Nebraska Corn Board appreciates the observations by the Auditors Office during the entrance audit meeting and the exit audit meeting that complimented the board contract review process, as well as the amount of detail the board and staff provides on travel expenses documentation and receipts. While the board is accountable to the state statutes, the board also feels equally accountable to the farmers of Nebraska who pay the ¼ cent corn checkoff. The policies developed by the board are to provide, within reason and common sense, fiscally sound accounting practices that are updated through audits such as this and the best educated decision making process on board expenditures possible.

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NEBRASKA CORN DEVELOPMENT, UTILIZATION, AND MARKETING BOARD

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INDEPENDENT AUDITORS' REPORT

Don Dunlap, CPA
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We have audited the accompanying financial statements of the governmental activities and each major fund of the Nebraska Corn Development, Utilization, and Marketing Board (Board), as of and for the year ended June 30, 2002, which collectively comprise the Board's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Board's management. Our responsibility is to express opinions on these financial statements based on our audit.

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We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

Mary Avery
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As discussed in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

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Also, as discussed in Note 1, the financial statements of the Nebraska Corn Development, Utilization, and Marketing Board, are intended to present the cash balances and changes in cash balances of only that portion of the governmental

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activities and each major fund of the State that is attributable to the transactions of the Nebraska Corn Development, Utilization, and Marketing Board. They do not purport to, and do not, present fairly the cash balances of the governmental activities and each major fund of the State of Nebraska as of June 30, 2002, and its changes in cash balances for the year then ended in conformity with the cash receipts and disbursements basis of accounting.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash balances of the governmental activities and each major fund of the Nebraska Corn Development, Utilization, and Marketing Board, as of June 30, 2002, and the respective changes in cash balances thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2003, on our consideration of the Nebraska Corn Development, Utilization, and Marketing Board's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board's basic financial statements. The schedules, Management's Discussion and Analysis, and budgetary comparison information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, except for the portion marked "unaudited," on which we express no opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Management's Discussion and Analysis and budgetary comparison information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Pat Reding, CPA

March 31, 2003

Assistant Deputy Auditor

NEBRASKA CORN DEVELOPMENT,
UTILIZATION, AND MARKETING BOARD

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Nebraska Corn Development, Utilization, and Marketing Board's financial report presents a narrative overview and analysis of the financial activities of the Nebraska Corn Development, Utilization, and Marketing Board for the fiscal year ended June 30, 2002. Please read it in conjunction with the Board's financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Nebraska Corn Development, Utilization, and Marketing Board's basic financial statements. The Board's basic financial statements have three components: 1) agency-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains information in addition to the basic financial statements.

Agency-Wide Financial Statements. The Statement of Net Assets Arising from Cash Transactions and the Statement of Activities – Cash Basis provide a broad overview of the Board's overall financial status. Over time, increases or decreases in the Board's net assets are one indicator of whether its financial health is improving or deteriorating. The Board's financial statements are prepared on the cash basis of accounting and do not include capital assets, accounts receivable and payable, or long-term debt activity, which would need to be considered to assess the financial health of the Board. Nonfinancial factors also need to be considered to assess the overall health of the Board. Agency-wide financial statements divide the Board into three kinds of activities:

Governmental activities - The Board's basic services are included here. These activities are generally financed through taxes.

Business-type activities - Activities financed by fees charged to external parties for goods or services would be included here. The Board had no business-type activities for fiscal year ended June 30, 2002.

Component units - No component units for the Board were identified.

Fund Financial Statements. Fund financial statements focus on the individual parts of the Board, reporting the Board's operations in more detail than the agency-wide statements by providing information about the Board's most significant "major" funds. Funds are accounting devices used to keep track of specific sources of funding and spending for particular purposes.

The governmental funds statements tell how general governmental activities were financed in the short term as well as what remains for future spending.

The proprietary fund statements offer financial information about the activities the government operates like businesses. The Board currently has no proprietary funds.

NEBRASKA CORN DEVELOPMENT,
UTILIZATION, AND MARKETING BOARD

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Fiduciary fund statements provide information about financial relationships in which the Board acts solely as a trustee or agent for the benefit of others. Fiduciary funds are not included on the agency-wide statements. The Board currently has no fiduciary funds.

Notes to the Financial Statements. The notes to the financial statements are an integral part of the agency-wide and fund financial statements and provide essential information necessary for fair presentation of the financial statements.

Supplementary Information. This Management Discussion and Analysis and the Budgetary Comparison Schedule represent financial information which provides users of this report with additional data that supplements the agency-wide statements, fund financial statements, and notes. This report also includes optional financial information such as schedules of Nebraska Corn Production, Disbursements by Subprogram, and Check-Off Received. This information is provided to address certain specific needs of various users of the report.

BASIS OF ACCOUNTING

The Nebraska Corn Development, Utilization, and Marketing Board's financial statements are presented on the cash basis of accounting, which is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and related assets and liabilities. Under the cash basis of accounting, receipts and disbursements and related assets and liabilities are recorded when they result from cash transactions.

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. Also, capital assets (land, buildings, furniture, equipment, and infrastructure) and the related depreciation are not recorded. Therefore, when reviewing the financial information and discussion within this report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

FINANCIAL ANALYSIS OF THE BOARD AS WHOLE

Changes in Net Assets

For the fiscal year ended June 30, 2002, net assets of the Board (current assets resulting from cash basis transactions) increased 19 percent.

NEBRASKA CORN DEVELOPMENT,
UTILIZATION, AND MARKETING BOARD

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

	<u>Governmental Activities</u>		
	<u>2002</u>	<u>2001</u>	<u>% Change</u>
Unrestricted	\$ 939,883	\$ 792,404	19%
Total Net Assets	<u>\$ 939,883</u>	<u>\$ 792,404</u>	<u>19%</u>

Governmental Activities

Receipts for the Board's governmental activities increased 11 percent, while disbursements decreased 18 percent.

ENTITIES CHANGES IN NET ASSETS

	<u>Governmental Activities</u>		
	<u>2002</u>	<u>2001</u>	<u>% Change</u>
RECEIPTS:			
General Receipts:			
Excise Taxes	\$ 2,487,510	\$ 2,232,400	11%
Investment Interest	60,196	90,225	-33%
Miscellaneous Income	57,067	16,151	253%
Total Receipts	<u>2,604,773</u>	<u>2,338,776</u>	<u>11%</u>
DISBURSEMENTS:			
Economic Development and Assistance	<u>2,457,306</u>	<u>2,996,930</u>	<u>-18%</u>
Total Disbursements	<u>2,457,306</u>	<u>2,996,930</u>	<u>-18%</u>
Excess (Deficiency) before Other Financing Sources and Uses	147,467	(658,154)	122%
OTHER FINANCING SOURCES & USES	<u>12</u>	<u>1,071</u>	<u>-99%</u>
Increase (Decrease) in Net Assets	<u>147,479</u>	<u>(657,083)</u>	<u>122%</u>
Beginning Net Assets July 1	<u>792,404</u>	<u>1,449,487</u>	<u>-45%</u>
Ending Net Assets June 30	<u>\$ 939,883</u>	<u>\$ 792,404</u>	<u>19%</u>

NEBRASKA CORN DEVELOPMENT,
UTILIZATION, AND MARKETING BOARD

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

FINANCIAL ANALYSIS OF THE BOARD'S FUNDS

As noted earlier, the Nebraska Corn Development, Utilization, and Marketing Board uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. No significant changes from the prior year were noted.

CAPITAL ASSET AND DEBT ADMINISTRATION

As noted earlier, the financial statements are presented on the cash basis of accounting and therefore do not include capital assets or long-term debt activity.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

No conditions were noted that would be expected to have a significant effect on the financial position or results of operations of the Nebraska Corn Development, Utilization, and Marketing Board.

NEBRASKA CORN DEVELOPMENT,
UTILIZATION, AND MARKETING BOARD
STATEMENT OF NET ASSETS
ARISING FROM CASH TRANSACTIONS
June 30, 2002

	GOVERNMENTAL ACTIVITIES
	<u>TOTAL</u>
	<u>(Memorandum Only)</u>
Assets	
Cash in State Treasury	\$ 933,746
Deposit with Vendors	3,625
Deposit with Department of Agriculture	<u>2,512</u>
Total Assets	<u><u>\$ 939,883</u></u>
Net Assets	
Unrestricted	<u>\$ 939,883</u>
Total Net Assets	<u><u>\$ 939,883</u></u>

The accompanying notes are an integral part of the financial statements.

NEBRASKA CORN DEVELOPMENT,
UTILIZATION, AND MARKETING BOARD
STATEMENT OF ACTIVITIES - CASH BASIS
For the Fiscal Year Ended June 30, 2002

	<u>Governmental Activities</u>
Disbursements:	
Function: Economic Development and Assistance	
Personal Services	\$ 278,078
Operating	2,070,973
Travel	100,253
Capital Asset Purchases	8,002
Total Disbursements	<u>2,457,306</u>
Program Receipts	<u>-</u>
Net Program Receipts (Disbursements)	<u>(2,457,306)</u>
General Receipts and Other Financing Sources:	
Excise Taxes	2,487,510
Unrestricted Investment Interest	60,196
Miscellaneous Income	57,067
Other Financing Sources	<u>12</u>
Total General Receipts and Other Financing Sources	<u>2,604,785</u>
Change in Net Assets	147,479
Net Assets July 1, 2001	<u>792,404</u>
Net Assets June 30, 2002	<u><u>\$ 939,883</u></u>

The accompanying notes are an integral part of the financial statements.

NEBRASKA CORN DEVELOPMENT,
UTILIZATION, AND MARKETING BOARD
**STATEMENT OF ASSETS AND FUND BALANCE ARISING
FROM CASH TRANSACTIONS
GOVERNMENTAL FUND**

June 30, 2002

	<u>Major Fund</u> Corn Development Fund
Assets	
Cash in State Treasury	\$ 933,746
Deposit with Vendors	3,625
Deposit with Department of Agriculture	<u>2,512</u>
Total Assets	<u><u>\$ 939,883</u></u>
Fund Balance	
Reserved for:	
Postage	\$ 3,625
Administrative Expenses	2,512
Unreserved	<u>933,746</u>
Total Fund Balance	<u><u>\$ 939,883</u></u>

The accompanying notes are an integral part of the financial statements.

NEBRASKA CORN DEVELOPMENT,
UTILIZATION, AND MARKETING BOARD
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUND**

For the Fiscal Year Ended June 30, 2002

	Major Fund <u>Corn Development Fund</u>
RECEIPTS:	
Excise Taxes	\$ 2,487,510
Miscellaneous:	
Investment Interest	60,196
Other Miscellaneous	<u>57,067</u>
TOTAL RECEIPTS	<u>2,604,773</u>
DISBURSEMENTS BY FUNCTION:	
Economic Development and Assistance	<u>2,457,306</u>
TOTAL DISBURSEMENTS	<u>2,457,306</u>
Excess of Receipts Over Disbursements	<u>147,467</u>
OTHER FINANCING SOURCES:	
Sales of Assets	<u>12</u>
TOTAL OTHER FINANCING SOURCES	<u>12</u>
Net Change in Fund Balance	147,479
FUND BALANCE, JULY 1, 2001	<u>792,404</u>
FUND BALANCE, JUNE 30, 2002	<u><u>\$ 939,883</u></u>

The accompanying notes are an integral part of the financial statements.

NEBRASKA CORN DEVELOPMENT,
UTILIZATION, AND MARKETING BOARD

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2002

1. **Summary of Significant Accounting Policies**

The accounting policies of the Nebraska Corn Development, Utilization, and Marketing Board are on the basis of accounting as described in the Nebraska Accounting System Manual.

A. Reporting Entity

The Nebraska Corn Development, Utilization, and Marketing Board (Board) is a State agency established under and governed by the laws of the State of Nebraska. As such, the Board is exempt from State and Federal income taxes. The financial statements include all funds of the Board. The Board has also considered all potential component units for which it is financially accountable, and other organizations which are fiscally dependent on the Board, or the significance of their relationship with the Board is such that exclusion would be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Board to impose its will on that organization, or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Board.

These financial statements present the Nebraska Corn Development, Utilization, and Marketing Board. No component units were identified. The Nebraska Corn Development, Utilization, and Marketing Board is part of the primary government for the State of Nebraska's reporting entity.

B. Basis of Presentation

Agency-wide Financial Statements. The Statement of Net Assets Arising from Cash Transactions and Statement of Activities - Cash Basis display information about the activities of the Board, and are in the format of government-wide statements as required by Governmental Accounting Standards Board (GASB) Statement Number 34. These statements include all the financial activities of the Board. Internal activities in these statements have not been eliminated. Governmental generally accepted accounting principles (GAAP) would require internal activity to be eliminated to minimize double counting. The Board reports governmental activities only. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

NEBRASKA CORN DEVELOPMENT,
UTILIZATION, AND MARKETING BOARD

NOTES TO FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct disbursement of a given function or segment is offset by program receipts. Direct disbursements are those that are clearly identifiable with a specific function or segment. Program receipts include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. General receipts include all other receipts properly not included as program receipts. The Board reported the following general receipts: Excise taxes, which are received in the form of check-off fees on all corn sold for consumption in the State of Nebraska.

Fund Financial Statements. The fund financial statements provide information about the Board's funds. GAAP requires separate statements by fund category - governmental, proprietary, and fiduciary. The Board uses only the governmental fund category. The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as nonmajor funds.

The Board reports the following major governmental fund:

Corn Development Cash Fund. This is the Board's operating fund. It accounts for the excise taxes received by the Nebraska Department of Agriculture. The excise tax is one-fourth of one cent per bushel of corn sold for consumption in the State and is used to fund the Board's operations.

C. Measurement Focus, Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus and basis of accounting. The accounting records of the Board are maintained and the Agency-wide financial statements were reported on the basis of cash receipts and disbursements. As such, the measurement focus includes only those assets and fund balances arising from cash transactions on the Statement of Net Assets Arising From Cash Transactions and the Statement of Activities-Cash Basis. Revenues are recognized when received and expenditures are recognized when paid for all funds of the Board. This differs from governmental generally accepted accounting principles (GAAP), which require the Agency-wide fund financial statements to be reported using the economic resources measurement focus and the accrual basis of accounting. Under this measurement focus and basis of accounting revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

NEBRASKA CORN DEVELOPMENT,
UTILIZATION, AND MARKETING BOARD

NOTES TO FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Continued)

The governmental fund financial statements were also reported on the cash receipt and disbursement basis of accounting. As such, the same measurement focus and basis of accounting were used as described above. This differs from governmental generally accepted accounting principles (GAAP), which require governmental fund financial statements to be reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this measurement focus and basis of accounting, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State of Nebraska considers revenues to be available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

D. Assets and Net Assets

Cash in State Treasury. Cash in the State Treasury represents the cash balance of a fund as reflected on the Nebraska Accounting System. Investment of all available cash is made by the State Investment Officer, on a daily basis, based on total bank balances. Investment income is distributed based on the average daily book cash balance of funds designated for investment. Determination of whether a fund is considered designated for investment is done on an individual fund basis. All of the funds of the Board were designated for investment during fiscal year 2002.

Inventories. Disbursements for items of an inventory nature are considered expended at the time of purchase rather than at the time of consumption.

Capital Assets. Under the cash receipts and disbursements basis of accounting, capital assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisitions are reflected as disbursements in governmental funds. GAAP requires capital assets, which would include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) to be reported in the applicable governmental activities columns in the government-wide financial statements.

Depreciation expenses on capital assets was not recorded on the cash basis financial statements. Under GAAP, depreciation expenses would be recorded in the Statement of Activities. The cost of normal maintenance and repairs that does not add to the value of the asset or extend asset life is not capitalized.

NEBRASKA CORN DEVELOPMENT,
UTILIZATION, AND MARKETING BOARD

NOTES TO FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Concluded)

Compensated Absences. All permanent employees working for the Board earn sick and annual leave and are allowed to accumulate compensatory leave rather than being paid overtime. Temporary and intermittent employees and Board and Commission members are not eligible for paid leave. Under the receipts and disbursements basis of accounting, the liabilities for compensated absences are not reported since they do not represent liabilities arising from cash transactions. Under GAAP, the compensated absences liability would be reported in the government-wide financial statements, and would be recorded in accordance with the State of Nebraska policy which is to recognize the expense and accrued liability when vacation and compensatory leave is earned or when sick leave is expected to be paid as termination payments.

E. Fund Balance Reservations

Reservations of fund balances are established to identify the existence of assets that have been legally segregated for specific purposes. Reservations of fund balances are also established for assets which are not current in nature, such as reserved for postage and administrative expenses.

2. Totals

The Totals “Memorandum Only” column represents an aggregation of individual account balances. The column is presented for overview informational purposes and does not present consolidated financial information because interfund balances and transactions have not been eliminated.

3. Contingencies and Commitments

Risk Management. The Board is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors or omissions, injuries to employees, and natural disasters. The Board, as part of the primary government for the State, participates in the State’s risk management program. The Nebraska Department of Administrative Services (DAS) Division of Risk Management is responsible for maintaining the insurance and self-insurance programs for the State. The State generally self-insures for general liability and workers’ compensation. The State has chosen to purchase insurance for:

- A. Motor vehicle liability, which is insured for the first \$5 million of exposure per accident. Insurance is also purchased for medical payments, physical damage, and uninsured and underinsured motorists with various limits and deductibles. State agencies have the option to purchase coverage for physical damage to vehicles.

NEBRASKA CORN DEVELOPMENT,
UTILIZATION, AND MARKETING BOARD

NOTES TO FINANCIAL STATEMENTS
(Continued)

3. Contingencies and Commitments (Concluded)

- B. The DAS-Personnel Division maintains health care and life insurance for eligible employees.
- C. Crime coverage, with a limit of \$1 million for each loss, and a \$10,000 retention per incident.
- D. Real and personal property on a blanket basis for losses up to \$250,000,000, with a self-insured retention of \$200,000 per loss occurrence. Newly-acquired properties are covered up to \$1,000,000 for 60 days or until the value of the property is reported to the insurance company. The perils of flood and earthquake are covered up to \$10,000,000.
- E. State agencies have the option to purchase building contents and inland marine coverage.

No settlements exceeded commercial insurance coverage in any of the past three fiscal years. Health care insurance is funded in the Compensation Insurance Trust Fund through a combination of employee and State contributions. Workers' compensation is funded in the Workers' Compensation Internal Service Fund through assessments on each agency based on total agency payroll and past experience. Tort claims, theft of, damage to, or destruction of assets, errors or omissions, and natural disasters would be funded through the State General Fund or by individual agency assessments as directed by the Legislature, unless covered by purchased insurance. No amounts for estimated claims have been reported in the Nebraska Corn Development, Utilization, and Marketing Board's financial statements.

Litigation. The potential amount of liability involved in litigation pending against the Board, if any, could not be determined at this time. However, it is the Board's opinion that final settlement of those matters should not have an adverse effect on the Board's ability to administer current programs. Any judgment against the Board would have to be processed through the State Claims Board and be approved by the Legislature.

4. State Employees Retirement Plan (Plan)

The Plan is a single-employer defined contribution plan administered by the Public Employees Retirement Board in accordance with the provisions of the State Employees Retirement Act and may be amended by legislative action. In the defined contribution plan, retirement benefits depend on total contributions, investment earnings, and the investment options selected. Prior

NEBRASKA CORN DEVELOPMENT,
UTILIZATION, AND MARKETING BOARD

NOTES TO FINANCIAL STATEMENTS
(Continued)

4. State Employees Retirement Plan (Plan) (Concluded)

to April 18, 2002, membership in the Plan was mandatory for all permanent full-time employees on reaching the age of thirty and completion of twenty-four months of continuous service. Full time employee is defined as an employee who is employed to work one-half or more of the regularly scheduled hours during each pay period. Voluntary membership is permitted for all permanent full-time or permanent part-time employees upon reaching age twenty and completion of twelve months of permanent service within a five-year period. Any individual appointed by the Governor may elect to not become a member of the Plan. Legislative Bill 687 (2002), effective April 18, 2002, stated all permanent full-time employees shall begin participation in the plan upon completion of twelve continuous months of service.

Employees contribute 4.33% of their monthly compensation until such time as they have paid during any calendar year a total of eight hundred sixty four dollars, after which time they pay a sum equal to 4.8% of their monthly compensation for the remainder of such calendar year. The Board matches the employee's contribution at a rate of 156%.

The employee's account is fully vested. The employer's account is vested 100% after five years participation in the system (prior to April 18, 2002) or at retirement. Legislative Bill 687 (2002), effective April 18, 2002, changed the vesting requirement to a total of three years of participation in the system, which includes the twelve-month eligibility period or credit for participation in another governmental plan prior to actual contribution to the Plan.

For the fiscal year ended June 30, 2002, employees contributed \$8,772 and the Board contributed \$13,684.

5. GASB 34

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments. The State of Nebraska implemented the Statement for the fiscal year ending June 30, 2002.

The Board implemented GASB 34 by presenting its financial statements in a format as required by GASB 34. However, as explained in Note 1.C. the Board's financial statements are presented on the cash basis of accounting, which is a basis of accounting other than generally accepted accounting principles. Previous period financial statements of the Board were also prepared on the cash basis of accounting; therefore, these financial statements, even though in a different format, are comparable to previous period financial statements of the Board.

NEBRASKA CORN DEVELOPMENT,
UTILIZATION, AND MARKETING BOARD
SUPPLEMENTARY INFORMATION
MAJOR SPECIAL REVENUE FUNDS
BUDGETARY COMPARISON SCHEDULE OF DISBURSEMENTS BY PROGRAM
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2002

<u>Corn Development Fund</u>				
	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
PROGRAM:				
384 - Corn Development Board	\$ 4,559,943	\$ 4,559,943	\$ 2,457,306	\$ 2,102,637
TOTAL DISBURSEMENTS	<u>\$ 4,559,943</u>	<u>\$ 4,559,943</u>	<u>\$ 2,457,306</u>	<u>\$ 2,102,637</u>

See Notes to Supplementary Information

NEBRASKA CORN DEVELOPMENT,
UTILIZATION, AND MARKETING BOARD

NOTES TO SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2002

BUDGETARY COMPARISON SCHEDULE

GAAP Requirements

Generally Accepted Accounting Principles (GAAP) requires budgetary comparison schedules for the general fund, and for each major special revenue fund that has a legally adopted annual budget. For each program, the Legislature appropriated the Board's legally adopted annual budget amount. The Board's budgetary comparison schedule includes the Corn Development Cash Fund.

GAAP also requires the budgetary comparison schedule to include the *original budget* and *final budget* amounts. The *original budget* is the first complete appropriated budget adjusted by reserves, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes *before* the beginning of the fiscal year. The original budget would also include actual appropriation amounts automatically carried over from prior years when required by law. The *final budget* is the original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes applicable to the fiscal year as signed into law or otherwise legally authorized.

Budgetary Process

The State's biennial budget cycle ends on June 30 of the odd-numbered years. By September 15, prior to a biennium, the Board and all other State agencies must submit their budget request for the biennium beginning the following July 1. The requests are submitted on forms that show estimated funding requirements by programs, sub-programs, and activities. The Executive Branch reviews the requests, establishes priorities, and balances the budget within the estimated resources available during the upcoming biennium.

The Governor's budget bill is submitted to the Legislature in January. The Legislature considers revisions to the bill and presents the appropriations bill to the Governor for signature. The Governor may: a) approve the appropriations bill in its entirety, b) veto the bill, or c) line item veto certain sections of the bill. Any vetoed bill or line item can be overridden by a three-fifths vote of the Legislature.

The approved appropriations will generally set spending limits for a particular program within the agency. Within the agency or program, the Legislature may provide funding from one to five budgetary fund types. Thus, the control is by fund type, within a program, within an agency. As a result, the budgetary comparison schedule only reports total disbursements *by program*.

Appropriations are usually made for each year of the biennium, with unexpended balances being reappropriated at the end of the first year of the biennium. For most appropriations, balances lapse at the end of the biennium.

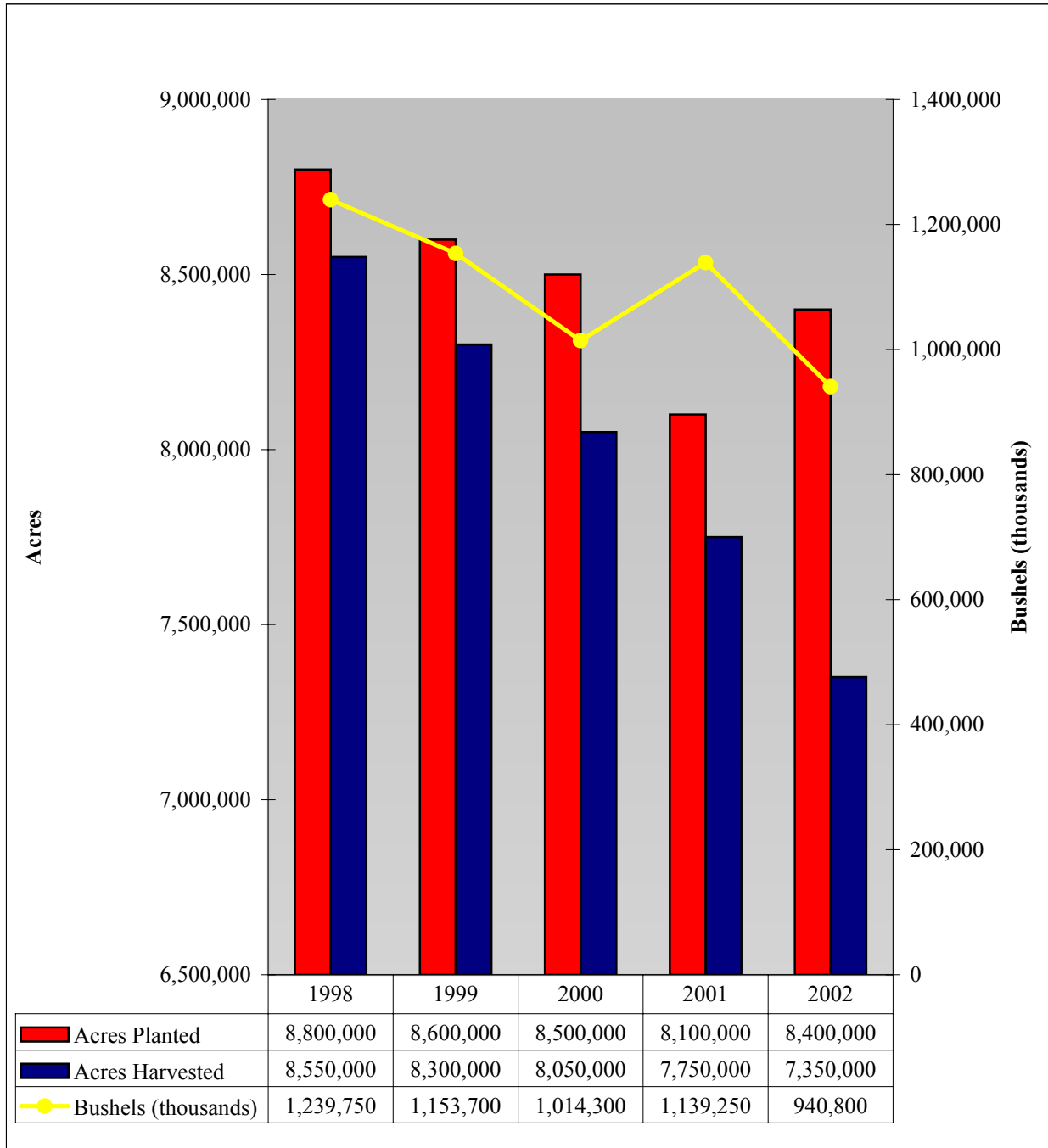
NEBRASKA CORN DEVELOPMENT,
UTILIZATION, AND MARKETING BOARD

NOTES TO SUPPLEMENTARY INFORMATION
(Continued)

All State budgetary disbursements for the Corn Development Fund are made pursuant to the appropriations, which may be amended by the Legislature, upon approval by the Governor. State agencies may reallocate the appropriations between major objects of expenditure accounts, except that the Legislature's approval is required to exceed the personal service limitations contained in the appropriations bill. Increases in total appropriations must also be approved by the Legislature as a deficit appropriations bill.

Receipts are not budgeted. Therefore, there are no budgeted amounts shown on the Budgetary Comparison Schedule.

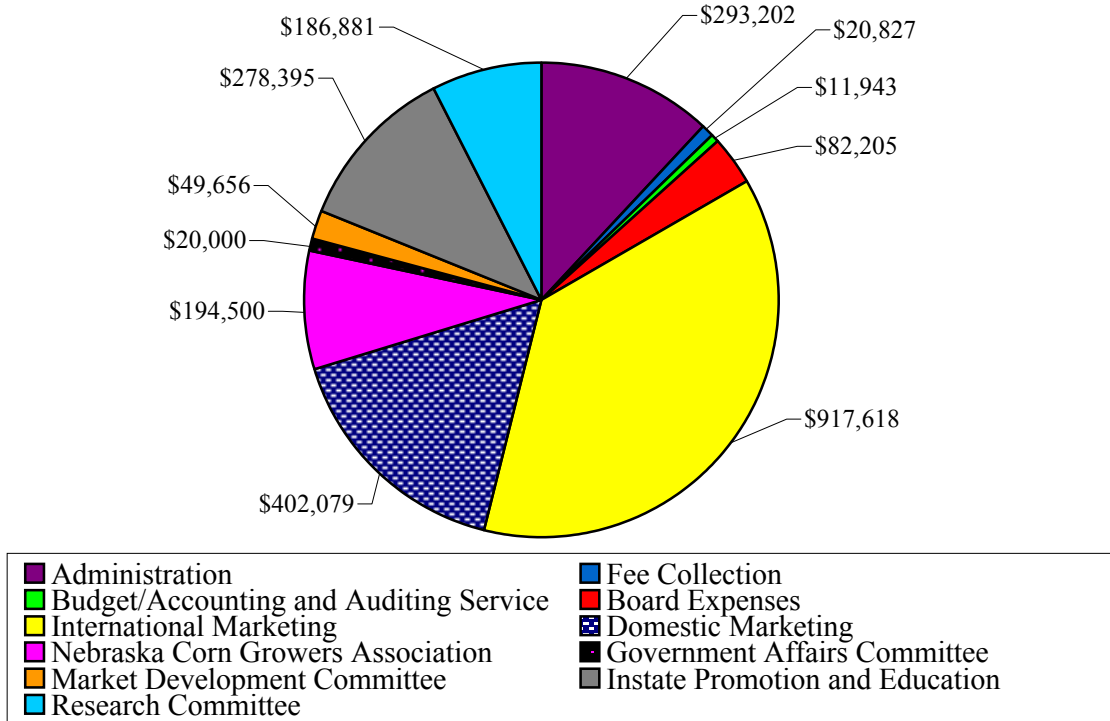
NEBRASKA CORN DEVELOPMENT,
UTILIZATION, AND MARKETING BOARD
SCHEDULE OF NEBRASKA CORN PRODUCTION
HARVEST YEAR 1998, 1999, 2000, 2001, AND 2002
UNAUDITED



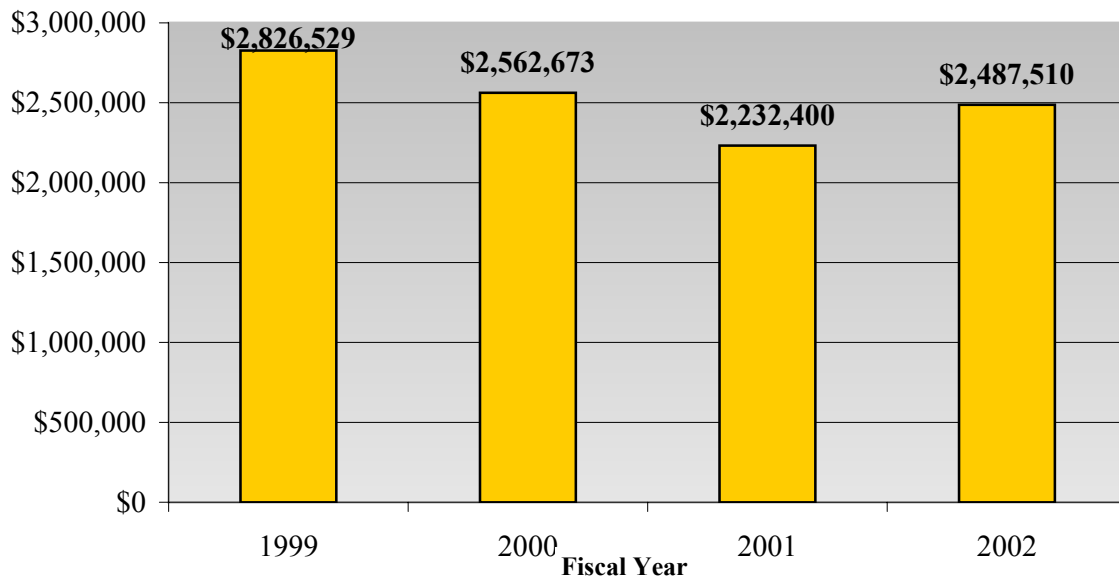
Source: U.S. Department of Agriculture, National Agricultural Statistics Service website.

NEBRASKA CORN DEVELOPMENT,
UTILIZATION, AND MARKETING BOARD

**Schedule of Disbursements by Subprogram
for Fiscal Year 2002
Unaudited**



Schedule of Check-Off Received
Fiscal Years 1999 and 2001 - Unaudited
Fiscal Years 2000 and 2002 - Audited



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**NEBRASKA CORN DEVELOPMENT,
UTILIZATION, AND MARKETING BOARD
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of the Nebraska Corn Development, Utilization, and Marketing Board as of and for the year ended June 30, 2002, and have issued our report thereon dated March 31, 2003. The report notes the financial statements were prepared on the basis of cash receipts and disbursements and was modified to emphasize that the financial statements present only the funds of the Nebraska Corn Development, Utilization, and Marketing Board. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Nebraska Corn Development, Utilization, and Marketing Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. We noted certain immaterial instances of noncompliance that we have reported to management of the Nebraska Corn Development, Utilization, and Marketing Board in the Comments Section of this report as Comment Number 1 (Contract Monitoring and Documentation) and Comment Number 2 (Travel Expenses).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nebraska Corn Development, Utilization, and Marketing Board 's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Nebraska Corn Development, Utilization, and Marketing Board in the Comments Section of this report as Comment Number 1 (Contract Monitoring and Documentation) and Comment Number 2 (Travel Expenses).

This report is intended solely for the information and use of the Board, the appropriate Federal and regulatory agencies, and citizens of the State of Nebraska, and is not intended to be and should not be used by anyone other than these specified parties.

Pat Reding, CPA

March 31, 2003

Assistant Deputy Auditor